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THE DISTRIBUTION OF INCOMES

BY W. H. MALLOCK

THE ideas prevalent as to the modern distribution of wealth, which underlie the arguments of extreme social reformers, have been mainly derived from economic and social thinkers who either neglected statistical methods altogether, or who flourish when these methods were at a stage much less advanced than that which they have now reached. The import of such ideas is that in modern countries, of which the most conspicuous examples are America and the United Kingdom, the bulk of the national income, in proportion as its total increases, tends to pass into the hands of a small and super-opulent class, the vast majority of the citizens being left in a condition of absolutely or relatively increasing poverty. Such, for example, was the teaching, still constantly quoted, of Mill. It was the teaching of Marx. It was the teaching of Henry George. But Mill made no attempt to translate his vague assertions into any definite and statistical form whatever. The statistical computations of Marx were, as a later Socialist writer has said of them, no more scientific than the physical speculations of Thales; whilst, according to Henry George, the nature of the case was so obvious that statistical investigation of any kind was unnecessary.

But since the days of George, to say nothing of those of Marx and Mill, statistical methods have very greatly improved; and it has gradually become more and more evident how fundamentally at variance with fact these traditional ideas with regard to the distribution of wealth are. The statistics of distribution are still in a very imperfect state. Much, however, has been learned in the course of the past twenty-five years; and one of the greatest advances made in statistical method has been the development of the method

of international comparison. In a work recently published, namely *The Wealth and Income of the People of the United States*, by Dr. W. I. King, Instructor in Statistics in the University of Wisconsin, materials have been brought together which have, for comparative purposes, even more significance than the writer himself recognizes; and it is my object in these few pages to call attention to some of the more important of them, supplementing them with certain others.

One of the most important comparisons which the work of Dr. King suggests is that between America and the United Kingdom. Dr. King divides his subject into two parts, one being the distribution of what he calls "wealth," by which he means exclusively permanent property or capital, the other being the distribution of incomes. This use of the term "wealth" is perhaps not very fortunate; for wealth in the popular mind is less closely associated with capital than it is with spendable income; and millions of men may be earning large incomes by work who would, in Dr. King's language, have no wealth whatsoever. Indeed he admits that such is the case himself, and that the net results of distribution in any country are mainly to be looked for in the distribution of the means by which life may be enjoyed, rather than of shares in farm lands, of factory walls, and of machinery. We will, therefore, confine ourselves here to the distribution of incomes; and, before dealing with the figures for the United States as Dr. King gives them, certain others shall be summarized which he omits, though by implication he often alludes to them. These are figures relating to the United Kingdom. Of the distribution of capital, or capital values in that country, he gives a tabular account. He gives no corresponding account of the distribution of incomes. His figures for the United States are brought down to the year 1910. In dealing with the United Kingdom it will be convenient to take the year 1907 and the years adjoining, because with regard to that particular period the available evidence is more than usually ample.

Two methods of computation, each independent of the other, united to show that in the year 1907 the income of the United Kingdom was approximately 10,500 million dollars. There was also direct evidence to show the aggregate amounts of two groups of incomes respectively—namely those at the top of the scale, which exceeded 25,000 dollars a

year, and those at the bottom, which did not exceed 800. With regard to the intermediate groups an index is to be found in the official records of houses, as classified and enumerated in accordance with their rental values, rent being taken to represent on an average from one-eighth to one-twelfth of the incomes of their respective occupiers. If, then, on the basis of such evidences we divide incomes into the following classes: (1) Those not exceeding 2,500 dollars a year; (2) those between 2,500 dollars and 5,000 dollars; (3) those between 5,000 dollars and 25,000; and (4) those exceeding 25,000, the respective aggregates of these groups will have been as follows:

Amount of individual incomes.	Aggregate in millions of dollars.	Approximate percentage of total.
Up to 2,500 dollars.....	8,200	78
2,500 to 5,000.....	700	7
5,000 to 25,000.....	950	9
Exceeding 25,000.....	650	6
<hr/> 10,500		

Now as to the idea common amongst extreme reformers that the bulk of the national income, in any modern country, is swallowed up by a minority called "the rich," it must be observed that "rich" is a term the meaning of which is relative. But when we recollect that "the rich," as described in popular oratory, are identified by Marx with "great factory lords," that an English radical statesman has recently described them as the lords of "piled up aggregations," and that they are invariably typified in Socialist caricatures in America by species of bloated ogre as hugging or staggering under sacks each labeled "5,000,000 dollars," we shall be justified in assuming that "the rich," as the reformers imagine them, can hardly be persons with less than 25,000 dollars a year. We shall at all events (as I have pointed out elsewhere) be straining the implications of the word to their utmost, if we take it that these monstrous plutocrats are a band none of whose members has incomes of less than 5,000 dollars. If, then, we adopt this latter and absurdly comprehensive definition, we shall see from the above table that the actual share of "the rich" in the income of the United Kingdom, instead of forming any preponder-

ant part of it, was at the date in question little more than one-seventh, whilst the sole class which really represents the popular conception of riches took, as a matter of fact, hardly more than one-seventeenth.

Now, the figures just given, except those relating to the largest incomes and the lowest, in view of the evidence on which they are founded, might, if they stood alone, be made the subject of more or less sceptical criticism. It might also be urged—and this is a more important matter—that, even if substantially correct, they relate to the affairs of one country only, and possess no general significance. Let us, then, turn to Dr. King's tables relating to the distribution of incomes in the United States, and see how the affairs of one country throw light on those of another.

In the year 1910 the entire income of the Continental United States was in round figures 30,500 million dollars, and if we start with dividing this into four groups of incomes, classified as they have just been classified in the case of the United Kingdom, their respective amounts, according to Dr. King's tables, are as follows:

Incomes up to 2,500 dollars.....	23,000 million dollars
2,500 to 5,000.....	2,100 million dollars
5,000 to 25,000.....	3,000 million dollars
Exceeding 25,000.....	2,400 million dollars

Let us now take the case of Prussia, which, says Dr. King, is the European country which provides us with the best data for a comparison. The figures, as Dr. King groups them, do not completely coincide with the grouping that has been here adopted with regard to America and the United Kingdom, for the lowest of the Prussian groups, as shown in his synopsis, consists of incomes up to about 2,400 dollars instead of 2,500, and no comparable division is made between incomes ranging from 2,500 dollars to 25,000; but, these discrepancies being allowed for, the comparative results are remarkable. The income of Prussia in the year 1910 was, according to Dr. King's tables, made up as follows:

Incomes up to 2,400 dollars.....	4,500 million dollars
2,400 to 25,000.....	875 million dollars
Exceeding 25,000.....	310 million dollars

Let us now take the three countries together, and express in each case the income of each group in terms of percent-

ages of the total, as has been done already in the case of the United Kingdom:

Range of Incomes.	Approximate percentage of total income.		Prussia
	United Kingdom	United States	
Up to 2,500 dollars.....	78	76	78½
2,500 to 5,000.....	7	7 }	16
5,000 to 25,000.....	9	9 }	
Exceeding 25,000 ¹	6	8	5½

The close similarity of these three sets of figures—figures worked out in three different countries by independent investigators dealing with different data—forms a striking confirmation of the substantial accuracy of each. Not only does it exhibit the radical fallacy of the belief that income in modern countries passes mainly into the hands of the rich, but it also disposes of the idea that distribution in any one country is the result of local accident, and shows that it is and must be determined by some general principle, to which certain human activities, wherever they operate, naturally and necessarily conform. And that such is the case will become more and more evident, if, still using Dr. King's figures for America, we carry our comparison of these with the figures for the United Kingdom further.

Dr. King in his tables for America deals with family incomes, and not with incomes received by and legally pertaining to individuals. Thus, whereas the total number of persons "gainfully occupied" was 37 million, the total number of family incomes with which he deals was 28 million. But this procedure practically affects his figures in the case of those families only whose joint incomes (mainly consisting of wages) did not exceed 1,400 dollars. It appears that in cases such as these a family whose joint income was as much as 1,200 or 1,400 dollars would comprise on an average one principal worker whose earnings reached, but did not exceed, 800 dollars. Dr. King expressly says that in this respect the figures can represent no more than a rough approximation to the truth; but they will enable us, if we so accept them, to make a very interesting comparison between such incomes and incomes below a certain limit in the United Kingdom; for if the sum of American family incomes not exceeding

¹ Dr. King mentions in a note that the figures given by him for this group of incomes may possibly be excessive. Should this prove to be the case, the parallelism between the United States and the United Kingdom would be even closer than that represented above.

1,200 or 1,400 dollars represent individual incomes not exceeding 800 dollars, the sum of such incomes in America will correspond to the sum of such incomes in the United Kingdom as are not subject to income-tax. The sum of these last was in the year 1907, about 6,500 million dollars out of a total income of 10,500, or, in other words, just short of 62 per cent. According to Dr. King's figures, the sum of family incomes in America not exceeding 1,400 dollars was, in the year 1910, 19,200 million dollars, or $62\frac{3}{4}$ per cent of a total income of 30,500 dollars.

Another example may be given, taken at random, showing the similarity of the results reached by independent methods of computation. In the year 1907 there were in Great Britain and Ireland about 130,000 houses the rental values of which ranged from 250 dollars to 300, and which are roughly computed to represent the same number of families, their incomes ranging from 2,700 or 2,800 dollars to 3,400. In the United States, as shown in Dr. King's tables, the number of incomes lying between the same limits was about 230,000; the two numbers being in almost the same ratio as that borne by the population of one country to the population of the other; whilst the aggregate of such incomes was $3\frac{1}{2}$ per cent of the total in the United Kingdom, in the United States, according to Dr. King's figures, it was about $3\frac{1}{4}$ per cent. We need not insist on such similarities too strictly, but they are evidently very close. A similarity yet more significant is one of an allied though not identical kind.

According to the idea which prevails generally, the distribution of incomes is what is called "pyramidal." This means that, if incomes be grouped in accordance with their magnitude, the smallest will be the most numerous, the number decreasing in proportion as the amount increases. Now, as I have pointed out elsewhere, if Socialist theories of modern society be true, this is not only what does happen: it is also what is bound to happen until the present structure of society is altogether revolutionized. In every modern country, so the Socialist argument runs, the masses work for wages which are doled out to them by an employer; and the amount which they receive for their work is in every case the subject of a bargain, in which each party aims at doing the best he can for himself. Now, if the two parties met on equal terms the result would be substantially equitable. The worker would get from the employer as much as

his work was worth. The terms, however, on which they actually meet are in their very essence unequal. The wage-earner has nothing to sell but the faculties of his mind and body. He must, therefore, sell these faculties from week to week, or he will starve. The employer can afford to wait; and he thus can compel the wage-earner to accept a price which bears no relation to the value of the product of the work performed by him, but is simply determined by the minimum which will keep the wage-earner alive. Socialists, it is true, have of late years found themselves unable to deny that certain small sections of the wage-earners have contrived to secure something more than mere starvation wages; but they still maintain that, with regard to the great majority, the tendency of the existing system is to beat wages down to a common, and to the lowest possible, level. Now, if we examine (as by means of contemporary records we can do) the case of England at the beginning of the nineteenth century, we find a condition of things which does more or less coincide with the picture which such theorists draw. The great majority of the adult male workers barely earned as much as two-and-a-half dollars a week; a small minority earned three dollars; those who earned three-and-a-half dollars were a minority smaller still. About fifty years later, however, an English statistician noted, as a mere empirical fact, that this scheme of distribution appeared to be undergoing a change, and that larger incomes up to a certain point were increasing in number, while the numbers of the smaller were declining. Since that time the change, which relates almost exclusively to incomes earned as wages, has become more and more pronounced, and may be roughly expressed thus: If we suppose the wage-earners to be divided into five groups, the individual earnings in each of which are indicated respectively by the numerals 3, 4, 5, 6, and 7, the number of the typical composition of a staff of a hundred men in England, in the year 1800, have been more or less like this: Group 3, would have comprised 75 men; Group 4, 15 men; Group 5, 5 men; Group 6, 3 men, and Group 7, 2 men. A hundred years later the typical composition of a similar staff of men would have been more or less like this: Group 3, would have comprised 75 men; Group 4a, 5 men; Group 4, 10 men; Group 5, 75 men; Group 6, 7 men, and Group 7, 3 men. These figures, though they broadly correspond with facts, must not be taken as representing facts in detail. They

are given only as indicating the general character of a change which has taken place first in England, and subsequently in the United Kingdom between the beginning of the nineteenth century and today. It is a change which affects wage-incomes up to a certain limit, that limit being approximately 480 dollars. Earnings above that sum revert to the traditional order, and decrease in number in proportion as they increase in magnitude. Such being the case with regard to the United Kingdom, the remarkable fact which we are here concerned to note is that a parallel scheme of distribution has developed itself in America likewise. Incomes—mainly wage-incomes—up to 800 dollars, are divided in Dr. King's tables into seven groups, beginning with 200 dollars, and rising above one another in steps of 100 dollars each. The number of incomes in the lowest group is 20,000; in the second, 270,000; in the third, 1,700,000; in the fourth and fifth, 2,600,000, and in the sixth and seventh, 3,500,000. Then we come to an eighth group, consisting of incomes between 800 and 900 dollars, the number of which is 2,700,000; then to incomes between 900 dollars and 1,000, the number of which is 2,200,000; then to incomes between 1,000 dollars and 1,100 the number of which is 1,800,000; and so on till we reach the upper end of the scale. What, then, is the meaning of these facts which are, in their general character, common to both countries?

What gives to these facts their peculiar interest is this—that they entirely refute the Socialist and ultra-radical doctrine with regard to the nature of the bargaining which takes place between the modern wage-earner and the employer. They demonstrate that whatever may be the price which the former pays the latter for his work, it is not determined (except in a minute number of cases) by the minimum on which a man can live. It is the very essence of the Socialist argument that the employer will never pay more than such a minimum if by any means he can avoid doing so—that whenever he does so, he does so against the grain. Why, then, if the employers of America can get some 300,000 workers for less than 300 dollars a year, do they pay 1,700,000 at the rate of 400 dollars? Why, if they can get 1,700,000 at the rate of 400 dollars, do they pay 2,600,000 at the rate of 500? And then, again, there comes the converse question, Why, if the employers of America can be obliged to pay 3,500,000 workers at the rate of 800 dollars a year, can only 1,800,000

workers get out of them as much as 1,100 dollars, and only 710,000 as much as 1,400 dollars? The absolute figures for America and the United Kingdom differ; but the nature of the phenomena is in both countries identical. What is the explanation of them? There is only one explanation possible.¹ It is this, that wage-prices are determined by the very factor the operation of which the theory of socialism denies. It is true that so far as the consciousness of the two parties—the wage-earner and the employer—is concerned, the price is determined by the process of isolated bargainings, but the results of such bargainings are in each case determined by the value of the work done—a value which varies with the faculties of the men employed; and though they may not always coincide with this value absolutely, they necessarily gravitate towards and are never very far away from it.

It will, however, be asked why, if such is the case, this scheme of wage-distribution, which is peculiar to the modern world, did not prevail a hundred years ago, when the whole industrial process was simpler than it is today; for the congenital faculties of the human race were presumably the same in the eighteenth century as they were in the nineteenth, as they are now in the twentieth. And the answer to this question is that, as the industrial process has become more and more highly intellectualized, demands have arisen and opportunities have been created for the exercise of a variety of faculties which, though they were always latent in men, were previously undeveloped because there was no industrial use for them; and these, being now developed in response to a novel demand for them, exhibit themselves in a series of graded efficiencies, each of which finds its index in the rate of wages paid for it, just as a man's clothes are an index of his height and figure. Moreover, the distribution of wages conforms to the same scheme in one country as in another, because everywhere the potential efficiencies with which men are born are distributed by nature in very much the same way.

It is impossible, within the limits of these few pages, to discuss this question of the international distribution of wages in detail. It must be enough for the moment to point

¹It has been suggested that this phenomenon may be accounted for by the fact that the lower rates of wages are those earned by women. Dr. King's analysis shows that this is not so. The scheme of distribution in question is specially notable in the case of married men.

out that the principle of distribution, as above indicated, does not apply to the wages of manual work only. It applies to the reward of effort of all kinds. In the first place it applies to salaries, which are the reward of mental work, such as that of the clerk, the supervisor, the manager. The growth of this class, intermediate between the employers and the manual workers, is a purely modern phenomenon. It can be traced with some accuracy in the United Kingdom for at least a hundred years. In that country the number of these subordinate mental workers has increased three times as fast as the population, whereas the number of the manual workers relatively to the population has declined. The growth of this class is the outward and visible sign of that intellectualization of industry, of which, under the employers, it is the instrument, and is intelligible only when regarded in this light. Its growth can be traced in America for a short time only; and if it be taken as a whole, Dr. King observes that statistical details with regard to it are still very defective; but if we confine ourselves to the records of "factory establishments" since the beginning of the present century, it will be found that the situation in America has become by this time essentially the same as it is in the United Kingdom. The subordinate mental workers have so increased at the expense of the manual that the proportion of the one class to the other is now in both countries similar, and in both countries the average earnings of the mental worker bear practically the same ratio to the average earnings of the manual, the amount of the former being in each case about twice that of the latter.

Finally, with regard to those who are neither salaried workers nor wage-earners, though a difference in the methods of classification adopted in the two countries renders direct comparisons of a detailed kind difficult, the net results of distribution coincide so closely that these must evidently be due to the action of the same pervading principle. The distribution of income, and the distribution of efficiency, must on the whole (though there will naturally be exceptions) coincide within narrow limits. In the American Tables all occupied persons other than wage-paid or salaried workers are classed together as "entrepreneurs"; but since, as Dr. King observes, some of these persons make "princely incomes," while the average income of an "entrepreneur" is hardly twice that of a skilled mechanic, it is evident that

most of these cannot, in the ordinary sense of the word, be "employers" at all. The typical employer of today can hardly be a person making less than 5,000 dollars a year; and since the total of incomes exceeding that sum is, both in America and the United Kingdom, only about 15 per cent. of the total, the "employers," even if they managed to take twice as much as was due to them, would diminish the incomes of the great mass of the people by not more than $7\frac{1}{2}$ per cent. As matters stand, the close similarity in the distribution of these larger incomes from 5,000 dollars up to those exceeding 25,000 in America, the United Kingdom, and in Prussia also, is in itself sufficient to indicate, without closer study, that the coincidence of income with efficiency of some sort or other is a law which prevails throughout the distributive system from the bottom of the scale to the top. The exceptions (if such there are) which would most readily occur to an objector, would naturally be those incomes of colossal magnitude which are practically peculiar to America, and are of more or less recent origin—namely, those exceeding 2,000,000 dollars. But these, though they make their recipients the talk of half the world, are not so much as one-hundred-and-twentieth part of the income of people of the United States; therefore, for purposes of imagined redistribution, it makes very little matter whether we take them into account or no. If, however, these world-famous incomes being excluded, we concern ourselves with the larger group consisting of incomes in excess of 25,000 dollars, the proportion of these to the total will be very nearly the same in the United States, the United Kingdom and Prussia—that is to say, about 6 per cent. The similarity goes yet deeper: for the distribution of incomes within the limits of this group is in the first two countries nearly the same likewise, and would probably prove to be in Prussia were the data for a comparison available.

It is impossible here to pursue this subject further; but the outstanding facts which have been thus briefly noted are sufficient to show how widely different is the distribution of incomes in the modern world from the conceptions of it which are most popular, and how much more complex, more general, and more deeply seated are the causes to which its distribution is due than those which alone figure in the crude theories of Marxian, and even of later, socialism.

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